

# Chairman's statement



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**A.M. Thomson** | Chairman

## Overview

2016 was another challenging year for the Group. The oil & gas and other resources' downturn persisted, with its knock-on impact on the capital goods market more generally. This resulted in a decline in revenue at constant exchange rates, partially offset by continued growth in Bodycote's automotive and aerospace business.

The Group, under the stewardship of Stephen Harris and his executive team, has once again successfully navigated the business through these tough conditions and we remain in a strong financial position.

## Dividend

The Board considers the dividend to be an important component of shareholder returns and is proposing a final ordinary dividend of 10.8p, an increase of 4.9%, which will be paid on 2 June 2017, subject to shareholder approval at the 2017 Annual General Meeting (AGM). This brings the total ordinary dividend for 2016 to 15.8p (2015: 15.1p) costing £20.5m which represents a year-on-year increase of 4.6%. The Board is not recommending a special dividend this year, noting that, on top of the bolt-on acquisitions completed in 2016, there is a pipeline of further potential transactions, as well as other investments to support growth, which the Board believes will deliver superior returns for shareholders.

## Governance and reporting

One of my key responsibilities as Chairman is to promote effective governance across the Group thus ensuring that we remain a successful and sustainable entity with good governance procedures practised across all 23 countries in which the Group operates. In order to enable shareholders to understand how this goal is achieved, we have provided a corporate governance statement on page 38 of this Annual Report. This describes how the governance structure underpins the delivery of the Group's business strategy. On page 24 we have also outlined the principal risks that may prevent the business from achieving its objectives and the actions being taken to overcome these potential obstacles.

During the year we introduced a new Directors' Remuneration Policy, following approval at the Group's AGM in May 2016. Details of the arrangements for directors' remuneration can be found in the Board report on remuneration on pages 54 to 73 of this Annual Report.

## Board matters

It is the responsibility of every board to ensure that there is an appropriate succession plan in place across the business, including for the Board of Directors. 2016 marked a number of changes to our Board, testing and proving the efficacy of our planning.

It was with great sadness that we learned of Raj Rajagopal's passing in November 2016. Raj, our Senior Independent Director, served on the Board from September 2008 until his retirement after the 2016 AGM. He was succeeded as Senior Independent Director by Ian Duncan, who also chairs the Group's Audit Committee and is a member of the Board's other committees.

I was delighted to welcome Pat Larmon to our Board in September. Pat joins us with a strong background in packaging products, originally as a business owner, and more recently as President of Bunzl's North America business since 2003. His experience in running complex multi-site operations, as well as in completing and integrating multiple bolt-on acquisitions, will serve Bodycote very well.

David Landless, who demonstrated his dedication to Bodycote by agreeing to stay on as Group Finance Director in order to effect a smooth handover to his successor, retired from the business at the end of 2016. I would like to thank David for his service and dedication during his 17 years at the Group.

I was also pleased to welcome Dominique Yates to the Board in November as David's successor. Dominique joins us with ten years of experience as Chief Financial Officer, with quoted company experience at Symrise AG and, most recently, Regus plc. Dominique assumed the role of Chief Financial Officer at the beginning of January 2017.

## People

Bodycote is a service business, but first class service is delivered by passionate and professional people, who understand their customers' needs and meet their demanding requirements time after time. We will continue to invest in training and developing our employees to ensure that our talented workforce remains one of our competitive advantages. As noted above, 2016 has not been an easy year for the Group and, once again, I would like to thank all of our employees for their dedication.

## Shareholders

During the year I met with a number of Bodycote's largest shareholders and received positive feedback from them on their views of the Group. In the coming year I will maintain this valuable dialogue. I also look forward to meeting as many shareholders as possible at this year's AGM in May 2017, when there will be an opportunity to discuss the Group's business and future prospects with Board members.

## Summary

The performance of the Group was creditable in 2016 through another challenging year. Decisive cost actions and measured investments have helped mitigate the negative impacts of weak market conditions.

We have a strong, high-performance culture serving a wide range of international customers, with a committed workforce and absolute integrity in our operating procedures. We remain well placed to take advantage of our strong position, whichever way our markets develop, and the long-term prospects for the Group are excellent. I remain confident that these should ensure an attractive return for both our employees and our shareholders over the coming years.

### A.M. Thomson

Chairman

28 February 2017